

FILED
February 08, 2010
**INDIANA UTILITY
REGULATORY COMMISSION**

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

**EASTERN HENDRICKS COUNTY)
UTILITY, INC. APPLICATION FOR)
SMALL UTILITY RATE CHANGE)**

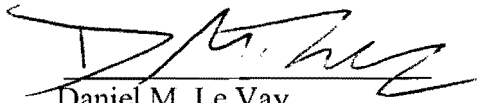
CAUSE NO. 43795-U

REPORT OF

THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

FEBRUARY 8, 2010


Respectfully Submitted,


Daniel M. Le Vay
Deputy Consumer Counselor

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing has been served upon the following parties of record in the captioned proceeding by electronic mail on February 8, 2010.

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**EASTERN HENDRICKS COUNTY UTILITY, INC.
REPORT OF THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR**

Cause No. 43795-U

Prepared by Mark Grosskopf, Harold Rees & Edward Kaufman

CHARACTERISTICS

Eastern Hendricks County Utility, Inc. (“Eastern Hendricks,” “Petitioner” or “Utility”) is an Indiana investor owned corporation formed in 1975 for the purpose of providing sewage disposal service to the Richwood Estates and Richfield subdivisions. Eastern Hendricks is a closely held corporation managed by its president and principal shareholder Jon Handy. In total, Eastern Hendricks’ operating area consists of about 224 acres of land in which the utility serves 257 customers. There is very limited opportunity for adding customers in the certificated area. The Commission authorized Eastern Hendricks to provide sewage disposal services through Certificate of Territorial Authority No. 108 issued in Cause No. 33538.

Eastern Hendricks’ treatment plant is located in the Richwood Estates subdivision in Avon, Indiana. The treatment plant is a 125,000 gallon per day extended aeration plant consisting of a 23,827 gallon surge tank, a Hydraseive screen, and a set of parallel aeration tanks. The plant also has a 33,900 gallon secondary clarifier, a 6,100 gallon effluent holding tank, a 4,311 gallon chlorination contact tank, two post aeration chambers, and a 10,000 gallon aerated sludge digester. The plant also performs chlorination and de-chlorination before the effluent is released to an unnamed tributary to White Lick Creek. The average daily flow is about 73,400 gallons. Eastern Hendricks purchases its electricity from Hendricks Power (a cooperative), which provides three-phase electric power.

The collection system consists of two lift stations; 19,118 feet of collection mains; and 4,061 feet of force mains. The mains are constructed from PVC pipe, except for 750 feet of polyethylene force main.

Eastern Hendricks' certified operator, Ed Ferguson, who is employed by Utility Services, Inc. of Pittsboro spends eight hours or more at the treatment plant each week. The Utility's president, Jon Handy, performs some operating activities during the week, as well, and also does maintenance and replacement work.

Eastern Hendricks also receives certain services from JDH Engineering, Inc. through a Contract for Utility Management Services. Under the contract, JDH Engineering primarily fulfills general office duties. Petitioner contracts separately for a Certified Operator and for Lab Services. JDH Engineering, Inc. is an affiliate company of Eastern Hendricks, as are Sani Tech, Inc. and Southeastern Utilities, both of which are filing simultaneous rate cases with this Cause.

There have been no noise complaints but there were a few complaints concerning odors during August last year. Operations costs have increased in part due to a price increase at the Indianapolis Belmont Plant for sludge disposal.

HISTORY AND REVENUE CHARACTERISTICS

On September 24, 2009, Eastern Hendricks applied for rate relief to the Indiana Utility Regulatory Commission ("Commission") under the small utility filing procedures (170 IAC 14-1). In its application, Petitioner proposed an across-the-board increase of 14.00% or \$149,536 in total revenues.

PREVIOUS CAUSES

Cause No. 42031-U – On June 29, 2001, the Eastern Hendricks County Utility petitioned for approval of an across-the-board increase to its rates and charges of 11.43%, although Petitioner's filing actually supported a 38.52% increase. This would produce total annual operating revenues of \$127,129 compared to Petitioner's current annual operating revenues of \$114,159. Petitioner also requested approval to add a non-recurring charge related to returned check fees of \$12.00 per check. The Commission issued an order on February 6, 2002 approving the request.

Cause No. 41814 – On September 5, 2000, the Eastern Hendricks County Utility filed a petition in which it requested authority from the Commission to render service in a rural area in Hendricks County to subdivisions of the SBC Development Company. On November 20, 2001, the utility filed a Motion to Withdraw this Cause because SBC Development had reached an agreement with the Hendricks County Regional Sewer District to receive sewage disposal service. The Commission issued a dismissal order granting the utility's motion on December 5, 2001.

Cause No. 38016 – On March 17, 1986, Eastern Hendricks County Utility filed a petition requesting approval of an across-the-board increase in its rates and charges for sewage disposal service of 192%. This would have taken the residential rate of \$12.00 per month, which was the rate when the utility first started service, and increased it to \$35.00 in order to make a break-even point of cash flow. This would increase the annual revenues from \$7,511 (actual test year figure) to \$23,088 with the proposed increase and other factors considered. The Commission issued an order on October 22, 1986 approving this request.

MAINTENANCE & OPERATIONS

Treatment Plant

Of the utilities that Mr. Handy owns, Eastern Hendricks has the largest treatment plant with a capacity of 125,000 gallons per day (“GPD”) serving 257 customers. This plant was first constructed in the 1970’s and then expanded in the 1980’s when an additional digester tank was added. The surge tank is equipped with a three-phase chopper pump rated at three horsepower. The operator spends at least eight hours each week at the plant. Other maintenance and operations work usually requires Mr. Handy to be at the plant a few hours a day most of the week. While noise has generally not been a problem, there have been complaints about odors. In the fall, leaves cause problems which require extra maintenance. Another sewer utility the OUCC has worked with that has a packaged treatment plant, has reduced the falling leaves problem by stretching plastic construction screen over the tanks (perhaps this treatment plant is larger and more difficult to screen – Eastern Hendricks may wish to review this concept if it hasn’t already). The utility wants to make some improvements in the future, such as building a flow-splitter box and blasting and recoating the tanks. Some improvements may help reduce the sludge haul out and lessen the risk of odors.

Collection System

The average sewage flow per customer for Eastern Hendricks is somewhat high at 291.4 gallons per day (the expected average water usage for a residential customer is about 200 GPD – 6,000 gallons of water usage per month divided by 30 days equals 200 GPD). Some of the homes served by the utility have wells, and some are provided water by the Indianapolis Water Company. There is virtually no prospect of growth with only two lots left in the subdivisions.

The IURC Annual Report indicates that the technology of the mains is PVC which would normally not be a factor in inflow and infiltration (“I&I”). However, some of the earlier versions of PVC had thinner walls and are more vulnerable to breakage. Also glued joints have been a problem with some PVC plastic pipe for a few other utilities due to substandard installation practices. The first part of this collection system was installed in the 1980’s.

REVENUE REQUIREMENTS

OUCC Review

The OUCC conducted an analysis of the Utility’s application, reviewed the Utility’s books and records, analyzed responses to discovery, reviewed historical documents, and discussed various issues with the Utility’s accounting consultant. As a result of the OUCC’s analysis, the OUCC accepted certain *pro forma* accounting adjustments as originally proposed by the Utility in its filing. The OUCC agreed with Petitioner’s *pro forma* operating revenues and various other test year operating expenses for which no adjustment was necessary, and believes these should be accepted as filed by the Utility. However, as presented below, the OUCC is proposing several adjustments to the revenue requirements set forth in the application submitted by the Utility. The OUCC’s adjustments, and resulting revenue requirements, are shown on attached Exhibit MHG-1, Schedules 1 through 9.

Rate Base

Petitioner’s application shows an original cost rate base of \$191,156 using utility plant in service of \$371,879 and accumulated depreciation of \$178,578, as shown on Petitioner’s financial statements for the period ending December 31, 2008. Also included in Petitioner’s rate base is \$11,319 for working capital and a reduction of \$13,464 for contributions in aid of construction.

The OUCC's working capital calculation differs from Petitioner's due to the changes to operating expenses described below. The OUCC also corrected Petitioner's working capital calculation by using the pro forma present rate O&M expenses rather than test year O&M expenses. The resulting Total Original Cost Rate Base proposed by the OUCC is \$191,207.

Allocation and Cost of Management Services

As shown on Schedule 9 of the OUCC's Exhibit MHG-1, and reflected in Adjustment 1 on Schedule 6, the OUCC made two adjustments to Petitioner's Allocation of Services Provided by JDH Engineering, Inc. First, by using the agreed upon and Commission approved utility plant value as explained in the Report of Indiana Office of Utility Consumer Counselor for Sani Tech, Inc., Cause No. 43793-U, Eastern Hendricks County Utility's allocation of rate base is now 39% of all utilities served by JDH Engineering. This allocation is based on the rate base determination agreed to by the parties in Sani Tech's last rate case, and subsequently approved by the Commission. The second amendment to Petitioner's Allocation of Services Provided by JDH Engineering, Inc. is to the amount of the Annual Service Fee. The Annual Service Fee in the test year was \$69,000 for the three utilities, and Petitioner is requesting \$85,000 for three utilities, which is a 23% increase. Eastern Hendricks County Utility's test year portion of the Service Fee was \$33,000. In Petitioner's last rate case, Cause No. 42031-U, the Test Year Service (Management) Fee was \$26,400. This equates to a 25% increase over the last 7 years. Petitioner is now requesting a 23% increase over the test year amount.

The Annual Service Fee is covered by an affiliate Contract for Utility Management Services with JDH Engineering, Inc., which relates in large part to fulfilling general office duties. (See

Attachment 1.) JDH Engineering, Inc. is an affiliate company of Eastern Hendricks County Utility, as are Sani Tech, Inc. and Southeastern Utilities, both of which are filing simultaneous rate cases with this Cause. (See Attachment 2.) Petitioner contracts separately for a Certified Operator and for Lab Services. Petitioner's requested increase to an affiliate company appears excessive given the current state of the economy and the relative size of the increase. Petitioner has not presented any evidence that either supports or justifies a 23% increase in the cost of services provided by JDH Engineering, Inc. Therefore, the OUCC based the allocation of the annual Service Fee on the test year amount of \$69,000 for the three utilities, giving Eastern Hendricks County Utility an allocated *pro forma* service fee of \$32,430, a decrease of \$570 under the test year as shown on the OUCC's Exhibit MHG-1, Schedule 9.

Depreciation Expense

The OUCC's recommended depreciation expense is based on depreciable utility plant in service per Petitioner's books on December 31, 2008 of \$344,509. In the OUCC's *pro forma* depreciation expense adjustment, the total utility plant is depreciated at the Commission approved composite rate of 2.5% for sewer utilities with a treatment plant. Petitioner also indicated on page 24 of the application for a rate increase in this Cause that it intends to use the 2.5% composite depreciation rate. As evidenced in Attachment 3, Petitioner has used accelerated depreciation rates on some of its plant items. Petitioner has not provided a depreciation study, and there has been no prior approval for something other than the composite rate. The OUCC recommends the 2.5% composite depreciation rate to both mitigate the rate impact to the ratepayers, and to better reflect the useful life of utility plant in service. The

OUCC calculated a pro forma depreciation expense of \$8,613, yielding an adjustment to test year of (\$705).

IURC Fee

The OUCC updated Petitioner's adjustment for the IURC Fee by using the currently effective IURC Fee rate of .001073599. The resulting decrease from the test year is (\$16).

Rate Case Expense

Petitioner requested an amortization of rate case expenses over a period of three years. Petitioner's last rate case was filed in June of 2001, nearly nine years ago. Nine years between rate filings is not indicative of a frequent filing history. Because Petitioner's history does not support a three year amortization of rate case expense, the OUCC used a five year amortization period, which it considers reasonable.

Income Taxes

The OUCC made one correction to Petitioner's state income tax calculations. Petitioner used a state income tax rate of 4.5%. The OUCC used the current state income tax rate of 8.5%. All other differences between Petitioner's federal and state income tax calculations are a result of the adjustments previously explained in this report.

Cost of Capital

Petitioner requests a 10% cost of common equity. The OUCC does not dispute the cost of equity requested, which results in a weighted cost of capital of 10.00%. Therefore, the OUCC's recommended rate of return is 10.00%.

Recommendation

The OUCC recommends a rate base of \$191,207 and a rate of return of 10.00%, yielding a net operating income of \$19,121. This equates to a recommended revenue increase of \$13,027, or 9.98%, resulting in an across-the-board monthly flat rate of \$42.89.

EASTERN HENDRICKS COUNTY UTILITY, INC.
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Comparison of Petitioner's and the OUCC's
Revenue Requirement

Description	Per Petitioner	Per OUCC	Sch Ref
Rate Base	\$191,156	\$191,207	4
Times: Rate Of Return	<u>10.000%</u>	<u>10.000%</u>	8
Net Operating Income	19,125	19,121	
Less: Adjusted Net Operating Income	<u>4,519</u>	<u>9,155</u>	5
Increase In Net Operating Income	14,606	9,966	
Times: Revenue Conversion Factor	<u>1.2510</u>	<u>1.3072</u>	1
Recommended Revenue Increase	<u>\$18,272</u>	<u>\$13,027</u>	
Overall Percentage Increase (Decrease)	<u>13.99%</u>	<u>9.98%</u>	
Monthly Rate	\$44.46	\$42.89	

EASTERN HENDRICKS COUNTY UTILITY, INC.
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Comparison of Income Statement Adjustments
Test Year Ending December 31, 2008

<u>Adjustment</u>	<u>Per Petitioner</u>	<u>Per OUCC</u>	<u>OUCC More/Less</u>
<u>Operating Revenues</u>			
Sewer Revenues	\$0	\$0	\$0
Other Operating Revenue	0	0	0
Total Operating Revenues	0	0	0
<u>Operating Expenses</u>			
Other Operation & Maintenance:			
Allocation of Engineering Services	4,400	(570)	(4,970)
Rate Case Expense	1,667	1,000	(667)
IURC Fee	1	(16)	(17)
Taxes - General			
FICA	0	0	0
Utility Receipt Tax	14	(0)	(14)
Property Tax	0	0	0
Taxes - Income - State	(735)	184	919
Taxes - Income - Federal	(796)	23	819
Amortization	0	0	0
Depreciation	0	(705)	(705)
Total Operating Expenses	\$4,551	(\$85)	(\$4,636)

EASTERN HENDRICKS COUNTY UTILITY, INC.
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Revenue Conversion Factor

Description	Per Petitioner	Per OUCC	Line No.
Subtotal	100.0000%	100.0000%	1
Less: IURC Fee (.001073599)	0.1203990%	0.1073599%	2
Subtotal	100.0000%	100.0000%	3
Less: Utility Gross Receipts Tax (at 1.4%)	0.014	0.014	4
Subtotal	98.4796%	99.8926%	5
Less: State Adj. Gross Inc. Tax (at 8.5%)	4.4316%	8.4909%	6
Subtotal	94.0480%	90.0018%	7
Less: Federal Income Tax (at 15%)	14.1072%	13.5003%	8
Change In Net Operating Income	79.9408%	76.5015%	
Revenue Conversion Factor	1.2509	1.3072	

Formula Notes:

Line 5 equals Line 1 minus Line 2

Line 8 equals Line 5 minus Line 6 minus Line 4

EASTERN HENDRICKS COUNTY UTILITY, INC.
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Balance Sheet as of December 31, 2008

ASSETS

Utility Plant:	
Utility Plant in Service	\$371,879
Less: Accumulated Depreciation	<u>(178,578)</u>
Net Utility Plant In Service	193,301
Construction Work In Progress	<u>0</u>
Total Utility Plant	<u>193,301</u>
Other Assets	<u>0</u>
Current and Accrued Assets:	
Cash	70,960
Accounts Receivable	15,843
Materials & Supplies Inventory	0
Prepaid Expenses and Other Current Assets	<u>0</u>
Total Current Assets	<u>86,803</u>
Total Assets	<u><u>\$280,104</u></u>

EASTERN HENDRICKS COUNTY UTILITY, INC.
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Balance Sheet as of December 31, 2008

LIABILITIES AND STOCKHOLDERS EQUITY

Stockholders Equity:	
Common Stock	\$1,000
Other Paid-in Capital	228,753
Retained Earnings	<u>26,101</u>
Total Stockholders Equity	<u>255,854</u>
Long Term Debt	<u>0</u>
Current & Accrued Liabilities:	
Current Portion of Long Term Debt	0
Accounts Payable	3,339
Accounts Payable to Associated Companies	2,750
Customer Deposits	0
Miscellaneous Current and Accrued Liabilities	1,260
Accrued Taxes	<u>3,437</u>
Total Current & Accrued Liabilities	<u>10,786</u>
Contributions In Aid of Construction	<u>13,464</u>
Total Liabilities and Stockholders Equity	<u><u>\$280,104</u></u>

EASTERN HENDRICKS COUNTY UTILITY, INC.
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Income Statement For The Twelve Months Ended December 31, 2008

Operating Revenues

Sewer Revenues	\$130,572
Other Operating Revenue	<u>692</u>
Total Operating Revenues	<u>131,264</u>

Operating Expenses

Operation and Maintenance Expense	104,341
Depreciation	9,318
Amortization	0
Taxes - Other Than Income Taxes	5,956
Taxes - Income - State	986
Taxes - Income - Federal	<u>1,593</u>
Total Operating Expenses	<u>122,194</u>
Net Utility Operating Income	<u>9,070</u>

Other Income/Expense - Net

Interest Income	1,310
Interest Expense	<u>(4,000)</u>
Total Other Income and Expense	<u>(2,690)</u>
Net Income	<u><u>\$6,380</u></u>

EASTERN HENDRICKS COUNTY UTILITY, INC.
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Original Cost Rate Base at December 31, 2008

Utility Plant In Service at 12/31/08	\$371,879
Less: Accumulated Depreciation	<u>(178,578)</u>
Net Utility Plant In Service	193,301
Less:	
Contributions In Aid of Construction	(13,464)
Add:	
Materials and Supplies Inventory (13 month average 12/07 - 12/08)	0
Working Capital (see below)	<u>11,370</u>
Total Original Cost Rate Base	<u><u>\$191,207</u></u>

Working Capital 45-Day Method:	
Total O&M Expenses	\$104,755
Less: Purchased Power	<u>(13,792)</u>
Subtotal	\$90,963
Divide by: 8	<u>8</u>
Working Capital	<u><u>\$11,370</u></u>

EASTERN HENDRICKS COUNTY UTILITY, INC.
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Pro Forma Net Operating Income Statement

Description	Twelve Mos. Ending 12/31/2008	Adjustments	Sch. Ref.	Pro Forma Present Rates	Adjustments	Sch. Ref.	Pro Forma Proposed Rates
<u>Operating Revenues</u>							
Sewer Revenues	\$130,572	\$0	Pet.	\$130,572	\$13,027	7-1	\$143,599
Other Operating Revenue	\$692			692			692
Total Operating Revenues	131,264	0		131,264	13,027		144,291
<u>Operation & Maintenance Expenses:</u>	104,341			104,755			104,769
Allocation of Engineering Services		(570)	6-1				
Rate Case and NTA Expense		1,000	6-4				
IURC Fee		(16)	6-3		14	7-2	
Taxes - Other Than Income							
FICA	0	0		0			0
Utility Receipt Tax	1,824	(0)	6-5	1,824	182	7-3	2,006
Property Tax	4,132	0		4,132			4,132
Taxes - Income - State	986	184	6-6	1,170	1,106	7-4	2,276
Taxes - Income - Federal	1,593	23	6-6	1,616	1,759	7-5	3,374
Amortization	0	0		0			0
Depreciation	9,318	(705)	6-2	8,613			8,613
Total Operating Expenses	122,194	(85)		122,109	3,061		125,170
Net Operating Income	\$9,070	\$85		\$9,155	\$9,966		\$19,121

Federal Tax Proof:

Net Operating Income	\$19,121	
Add: Federal Income Tax	3,374	
Add: Federal Income Tax Deferred	0	
Less: Synchronized Interest	<u>0</u>	
Federal Taxable Income	22,495	
Tax Rate	<u>15.00%</u>	
Gross Federal Income Tax	3,374	
Less: Investment Tax Credit	<u>0</u>	
Pro Forma Federal Income Tax	<u>\$3,374</u>	3,374 0

State Tax Proof:

Federal Taxable Income	\$22,495	
Add: State Income Tax	2,276	
Add: Utility Receipts Tax	2,006	
Add:	<u></u>	
State Taxable Income	26,777	
Tax Rate	<u>8.50%</u>	
Pro Forma State Income Tax	<u>\$2,276</u>	2,276 0

Utility Receipts Tax Proof:

Total Operating Revenues	\$144,291	
Less: Wholesale Customer Receipts	0	
Less: Exemption	(1,000)	
Less: Pro Forma Bad Debt	<u>0</u>	
Taxable Gross Receipts	143,291	
Tax Rate	<u>1.40%</u>	
Pro Forma Utility Receipts Tax	<u>\$2,006</u>	2,006 0

EASTERN HENDRICKS COUNTY UTILITY, INC.
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Adjustments

(1)

Allocation of Services Provided by JDH Engineering, Inc.

Allocated Service Fee from Schedule 9	\$32,430
Less: Test Year Expense	<u>(33,000)</u>
Adjustment - Increase/(Decrease)	<u><u>(\$570)</u></u>

(2)

Depreciation Expense

Utility Plant In Service	371,879
Less: Land	<u>(27,370)</u>
Less: Organizational Costs	<u>0</u>
Depreciable Utility Plant In Service	344,509
Composite Depreciation Rate	<u>2.50%</u>
Pro Forma Depreciation Expense	8,613
Less: Test Year Depreciation Expense	<u>(9,318)</u>
Adjustment - Increase/(Decrease)	<u><u>(\$705)</u></u>

(3)

IURC Fee

Pro Forma Revenues at Present Rates	131,264
Less: Bad Debt Expense	<u>(40)</u>
Applicable Operating Revenue	131,224
Current IURC Rate	<u>0.001073599</u>
Pro Forma IURC Fee at Present Rates	141
Less: Test Year IURC Fee	<u>(157)</u>
Adjustment - Increase/(Decrease)	<u><u>(\$16)</u></u>

(4)

Rate Case Expense

Estimated Rate Case Costs	5,000
Amortization Period - Years	<u>5</u>
Adjustment - Increase/(Decrease)	<u><u>\$1,000</u></u>

EASTERN HENDRICKS COUNTY UTILITY, INC.
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Adjustments

(5)

Indiana Utility Receipts Tax

Gross Receipts	\$131,264	
Less: Exemption	(1,000)	
Less: Pro Forma Bad Debts	<u>0</u>	
Utility Gross Receipts Subject to Gross Receipts Tax	130,264	
Utility Gross Receipts Tax Rate	<u>1.40%</u>	
Pro Forma Utility Gross Receipts Tax at Present Rates	1,824	
Less: Utility Receipts Tax Per Books at 12/31/08	<u>(1,824)</u>	
Utility Gross Receipts Tax Adjustment - Increase/(Decrease)		<u><u>(0)</u></u>

(6)

State and Federal Income Tax

	<u>Federal</u> <u>Income Tax</u>	<u>State</u> <u>Income Tax</u>
Pro Forma Present Rate Operating Revenue Increase	\$131,264	\$131,264
Less: Operations and Maintenance	(104,755)	(104,755)
Depreciation	(8,613)	(8,613)
Taxes Other Than Income	(5,956)	(5,956)
State Income Tax	(1,170)	
Synchronized Interest	0	0
Add Back:		
Utility Receipts Tax	<u> </u>	<u>1,824</u>
Taxable Income	10,771	13,764
Multiply by: Federal Income Tax Rate	<u>15.00%</u>	
Multiply by: State Adjusted Gross Income Tax Rate		<u>8.50%</u>
Pro Forma State Income Tax Expense		1,170
Pro Forma Federal Income Tax Expense at applicable rates	1,616	
Amortization of Investment Tax Credit	<u>0</u>	
Adjusted Federal Income Tax Expense	1,616	
Less: Test Year Expense	<u>1,593</u>	<u>986</u>
Adjustment - Increase/(Decrease)	<u><u>\$23</u></u>	<u><u>\$184</u></u>

EASTERN HENDRICKS COUNTY UTILITY, INC.
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Pro Forma Proposed Adjustments

(1)

Proposed Rate Increase

Pro Forma Present Rate Sales	\$130,572
Times: Rate Increase	<u>9.98%</u>
Adjustment - Increase	<u><u>\$13,027</u></u>

(2)

Proposed IURC Fee

Proposed Rate Increase	\$13,027
Times: Current Effective Rate (from Revenue Conversion Factor - Sch. 1)	<u>0.1074%</u>
Adjustment - Increase	<u><u>\$14</u></u>

(3)

Proposed Utility Receipts Tax

Proposed Rate Increase	\$13,027
Times: Current Effective Rate (from Revenue Conversion Factor - Sch. 1)	<u>1.4000%</u>
Adjustment - Increase	<u><u>\$182</u></u>

(4)

Proposed State Adjusted Gross Income Tax

Proposed Rate Increase	\$13,027
Times: Current Effective Rate (from Revenue Conversion Factor - Sch. 1)	<u>8.4909%</u>
Adjustment - Increase	<u><u>\$1,106</u></u>

(5)

Proposed Federal Income Tax

Proposed Rate Increase	\$13,027
Times: Current Effective Rate (from Revenue Conversion Factor - Sch. 1)	<u>13.5003%</u>
Adjustment - Increase	<u><u>\$1,759</u></u>

EASTERN HENDRICKS COUNTY UTILITY, INC.
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Capital Structure
as of December 31, 2008

Weighted Cost of Capital

Description	Amount	Percent of Total	Cost	Weighted Cost
Common Equity	\$255,854	100.00%	10.00%	10.000%
Customer Deposits	0	0.00%	0.00%	0.000%
Long Term Debt	0	0.00%	0.00%	0.000%
Post ITC	0	0.00%	0.00%	0.000%
Deferred Taxes	0	0.00%	0.00%	0.000%
Total	<u>\$255,854</u>	<u>100.00%</u>		<u>10.000%</u>

Calculation of Post-1970 ITC Rate

Description	Amount	Percent of Total	Cost	Weighted Cost
Common Equity	-	0.00%	-	0.000%
Long Term Debt	-	0.00%	-	0.000%
Total	<u>-</u>	<u>0.00%</u>		<u>0.000%</u>

Calculation of Synchronized Interest

Description	Amount	Percent of Total	Cost	Weighted Cost
Common Equity	\$255,854	100.00%	0.00%	0.000%
Customer Deposits	0	0.00%	0.00%	0.000%
Long Term Debt	0	0.00%	0.00%	0.000%
Post ITC	0	0.00%	0.00%	0.000%
Deferred Taxes	0	0.00%	0.00%	0.000%
Total	<u>\$255,854</u>	<u>100.00%</u>		<u>0.000%</u>

Original Cost Rate Base	\$191,207
Times: Weighted Cost of Debt and Customer Deposits	<u>0.000%</u>
Synchronized Interest	<u>\$0</u>

EASTERN HENDRICKS COUNTY UTILITY, INC.
CAUSE NO. 43795-U

Exhibit MHG-1
Schedule 9

Allocation of Services Provided by JDH Engineering, Inc.

	<u>Rate</u> <u>Base</u>	<u>Percent</u>	<u>Customers</u>	<u>Percent</u>	<u>Average</u> <u>Allocation</u>
Sani Tech, Inc.	158,194	32%	114	25%	28%
Southeastern Utilities, Inc.	144,391	29%	95	20%	25%
Eastern Hendricks County Utility, Inc.	191,207	39%	257	55%	47%
	<u>493,792</u>	<u>100%</u>	<u>466</u>	<u>100%</u>	<u>100%</u>

	<u>Annual</u> <u>Service Fee</u>	<u>Times:</u> <u>Percent</u>	<u>Allocated</u> <u>Service Fee</u>	<u>Less:</u> <u>Test Year</u>	<u>Adjustment</u>
Sani Tech, Inc.	\$69,000	28%	\$19,320	(\$18,000)	\$1,320
Southeastern Utilities, Inc.	69,000	25%	\$17,250	(18,000)	(\$750)
Eastern Hendricks County Utility, Inc.	69,000	47%	\$32,430	(33,000)	(\$570)
		<u>100%</u>	<u>69,000</u>	<u>(69,000)</u>	<u>0</u>

CONTRACT

for

UTILITY MANAGEMENT SERVICES

AGREEMENT

This Agreement is made as of January 1, 2008, between Eastern Hendricks County Utility, Inc. hereinafter referred to as "Eastern Hendricks" and JDH Engineering, Inc., an Indiana corporation.

WITNESSETH

WHEREAS, Eastern Hendricks is a private sewer utility located in Franklin Township, Marion County, Indiana and desires to contract for general management services.

WHEREAS, JDH Engineering, Inc. has utility management experience and is willing to provide those services to Eastern Hendricks under the terms and conditions listed below.

NOW, THEREFORE, KNOW ALL MEN BY THESE PRESENTS, that for and in consideration of the covenants and agreements contained herein, the parties hereto hereby agree as follows, to wit:

Section 1. JDH Engineering, Inc. shall provide the following services:

- A. Provide for 24 hr emergency response.
- B. Coordinate daily operations for the efficient & cost effective operation of the utility.
- C. Collection and deposit of daily cash receipts.
- D. Review of sewer main extensions and designs.
- E. Operational record keeping.
- F. Preparation and forwarding of monthly customer billing.
- G. Pursue delinquent accounts.
- H. Coordination of IURC filings.
- I. Coordination of sewer service for prospective customers
- J. Provide Bookkeeping services
- K. Preparation of the following annual reports IURC, Department of Local Government Finance, Sales Tax, Federal Income Tax returns, Indiana Income Tax return and Township Assessor's Report.
- L. Maintain an office and customer service center.
- M. Ordering & facilitating delivery of treatment chemicals.
- N. Utility representation during IDEM site reviews.
- O. Location of underground facilities per IUPPS notices.
- P. Provide Automatic Clearing House and Credit Card payment capabilities.

Unobligated additional services available for an additional Fee as needed and per request:

- A. Master Planning Studies.
- B. Construction management for Plant Expansions, Line Extensions and Facility improvements.
- C. Design sewer collection system extensions.
- D. Collection system review and coordination of updating.
- E. Plant maintenance and repairs.
- F. Collection system maintenance.

Section 2. Eastern Hendricks shall provide the following:

- A. Telephone and internet service for remote monitoring of plant.
- B. Shall contract separately for plant certified operator services.
- C. Disposal of Biosolid material.

Section 3. Fees & Terms:

JDH Engineering shall invoice Eastern Hendricks on the last day of each month for that month's services rendered. Eastern Hendricks shall pay each month's management and related charges by the 10th day of the following month. The fee for one month's general management services shall be \$1,500.00. Management fees may be re-negotiated after one (1) year upon the agreement of both Eastern Hendricks & JDH Engineering. This contract may be terminated by either party with a 60 day written notice after the first year.

Section 4. Notices.

All notices required or permitted under provisions of this agreement shall be in writing and shall become effective only when delivered by certified or registered mail, return receipt requested.

If to: Eastern Hendricks County Utility, Inc.
P.O. Box 259
Coatesville, IN 46121-0259

or

If to: JDH Engineering, Inc.
P.O. Box 259
Coatesville, IN 46121-0259

provided that such addresses may be changed by notice so given.

Section 5. Governing Law.

This agreement in all respects shall be governed by and construed in accordance with the laws of the State of Indiana including all matters of construction, validity and performance. Any provision of this agreement which is prohibited or unenforceable shall be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this agreement. To the extent permitted by applicable law, the parties hereby waive any provision of law which renders any provision of this agreement to prohibit it or unenforceable in any respect.

Section 6. Entire Agreement.

This document includes all agreements and understandings of the parties relating to the subject matter hereof and all prior and contemporaneous representations, agreements and understandings are hereby superseded and rendered void. No provision of this agreement may be changed, waived, discharged or terminated other than by written instrument signed by the party against which the enforcement is sought.

Section 7. Miscellaneous.

The provisions of this agreement shall be binding upon and inure to the benefit of the parties hereto and their respective permitted successors and assigns. The captions in this Agreement are for convenience of reference only and shall not define or limit any provision of this agreement.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed on the day and year first above written.

Eastern Hendricks County Utility, Inc.;

JDH Engineering, Inc.;

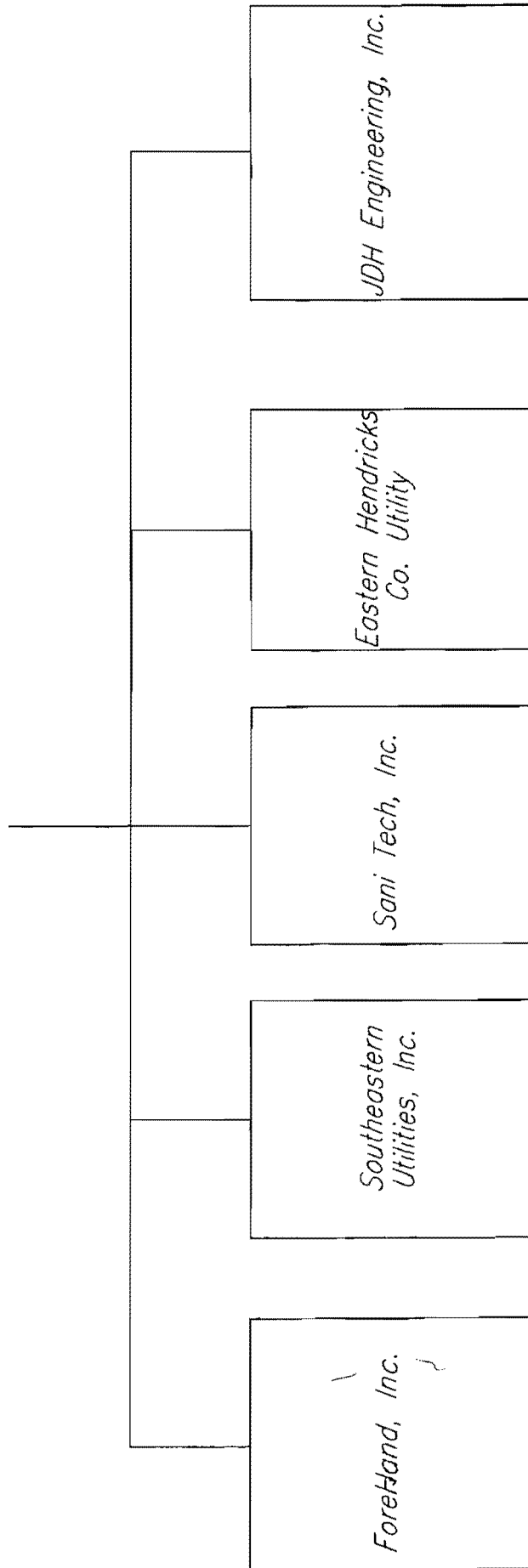
Jon D Handy, Secretary

Jon D Handy, President

Date

Date

Jon Handy; Individual



Jon Handy, President & Secretary

Eastern Hendricks County Utility, Inc. Depreciation

	IURC Codes	In Service Date	Cost/basis	Convention		
				Method	Term	on
Land	353		\$ 27,370.00			
1 1985 & Prior	354	1/1/1985	\$ 122,393.00	SL	HY	40
2 1986 Assets	354	1/1/1986	871.00	SL	HY	25
3 Lawn Mower	395	1/1/1987	282.00	SL	HY	40
4 Tractor	395	5/10/1988	650.00	SL	HY	40
5 BBC Pump	360	9/9/1988	1,733.00	SL	HY	40
6 1988 Mains Minor Plat	361	7/23/1988	4,950.00	SL	HY	40
7 Probe	389	2/16/1990	444.00	SL	HY	40
8 lawn Mower	395	9/2/1990	465.00	SL	HY	40
9 Pumps	360	12/12/1990	1,287.00	SL	HY	40
10 1990 Plant Expansion	354	12/1/1990	26,832.00	SL	HY	40
11 1991 Plant Expansion	354	7/1/1991	46,295.00	SL	HY	40
12 Hand Grinder	393	3/9/1991	194.00	SL	HY	40
13 Welder	393	7/8/1991	2,628.00	SL	HY	40
14 Lift Station Repair	360	7/15/1991	1,430.00	SL	HY	40
15 Mobile Phone	398	8/27/1991	261.00	SL	HY	40
16 Pressure Washer	393	9/21/1991	777.00	SL	HY	40
17 Pumps	360	12/28/1991	247.00	SL	HY	40
18 Chlorine test Meter	389	12/31/1991	610.00	SL	HY	40
19 New Blower Motor	380	9/18/1991	1,664.00	SL	HY	40
20 Pumps	360	12/2/1991	1,624.00	SL	HY	40
21 1992 Plant Expansion	354	1/1/1992	25,550.00	SL	HY	40
22 Weed Eater	395	7/29/1993	289.00	SL	HY	40
23 Sludge tank	354	7/31/1993	606.00	SL	HY	40
24 Computer	354	12/11/1993	2,250.00	SL	HY	40
25 Computer Monitor Note #99	354	12/19/1993	1,226.00	SL	HY	40
26 Earl Gray & Sons	354	3/11/1994	651.00	SL	HY	40
27 J Draplik	354	4/20/1994	293.00	SL	HY	40
28 BBC Pump replacement	360	4/21/1994	1,507.00	SL	HY	40
29 [REDACTED]		5/16/1994	8,311.00	SL	HY	40
30 Chemical Pump	380	7/28/1994	569.00	SL	HY	40
31 Chemical Pump	380	9/6/1994	609.00	SL	HY	40
32 BBC pumps	360	9/30/1994	2,038.00	SL	HY	40
33 Alarm Monitor	360	5/16/1995	810.00	SL	HY	40
34 Install Meters	360	5/16/1995	929.00	SL	HY	40
35 [REDACTED]		7/25/1995	788.00	SL	HY	40
36 Laboratory equipment	389	7/31/1995	1,438.00	SL	HY	40
37 Collection System Televising	361	10/6/1995	8,932.00	SL	HY	40
38 Pumps	395	2/14/1996	632.00	SL	HY	40
39 Wheel Kit	395	6/28/1996	1,223.00	SL	HY	40
40 Pressure Washer	393	10/19/1996	631.00	SL	HY	40
41 Static Screen	380	7/31/1996	2,264.00	SL	HY	40
42 Testing Kit	389	8/5/1996	1,158.00	SL	HY	40
43 [REDACTED]		7/3/1997	3,675.00	SL	HY	40
44 Oak bend Pump Station 1	360	1/14/1997	3,121.00	SL	HY	40
45 BBC Pump repair 1	360	3/24/1997	542.50	SL	HY	40
46 BBC Pump repair 2	360	5/19/1997	454.95	SL	HY	40

47	BBC Pump repair 3	360	8/5/1997	875.75	SL	HY	40
48	BBC Pump repair 4	360	9/16/1997	1,536.61	SL	HY	40
49	BBC Pump repair 5	360	10/3/1997	751.40	SL	HY	40
50	American Sigma 970 Flow meter	364	11/12/1997	2,985.00	SL	HY	40
51	Headworks Flygt 3085 Chopper Pump	360	11/17/1997	3,052.00	SL	HY	40
52	Headworks Flygt 3085 Chopper Pump	360	12/24/1997	2,815.75	SL	HY	40
53	BBC Pump repair 6	360	12/30/1997	1,584.10	SL	HY	40
54	Cl2 & Dechlor Pumps	380	3/31/1998	1,708.52	SL	HY	40
55	OB #2 Shoe repair	360	7/23/1998	495.00	SL	HY	40
56	OB #2 rebuild pump	360	10/30/1998	3,426.68	SL	HY	40
57	OB #1 Station New Pumps	360	4/27/1999	7,299.43	SL	HY	20
58	Headworks Tank Cover	380	8/22/2000	1,260.00	SL	HY	7
60	NH3 Test Kit	389	3/7/2003	419.00	SL	HY	20
61	New Auto Dialer	398	8/7/2002	805.50	SL	HY	5
62	American Sigma 950 Flow Meter	361	5/31/2003	788.00	SL	HY	40
63	Clarifier Modifications design	380	10/3/2003	5,000.00	SL	HY	40
64	Pump	380	6/1/2004	3,438.00	SL	HY	20
65	Control Panel	380	6/1/2004	2,261.20	SL	HY	20
66	Plant Evaluation	380	2/1/2004	5,000.00	SL	HY	40
67	37 KW Generator	380	1/26/2007	3,800.00	SL	HY	25
68	Gateway Control Computer	380	12/7/2006	1,559.80	SL	HY	15
69	Microscope	389	11/2/2007	500.00	SL	HY	20
70	Computer for Record Keeping	389	7/31/2008	1,000.00	SL	HY	15
71	New Cl2 Pump	380	10/3/2008	601.69	SL	HY	10
72	Headworks pump hoist	380	1/9/2009	2009 801.23	SL	HY	15
73	2008 rate Case			35.50	SL		
				385,454.61			
43	Sold 1980 Ford F600 Truck		4/28/2000	3,675.00			
29	Disposed of Dixie Chopper		1/1/1997	8,311.00			
35	Disposed of Trailer		1/1/1997	788.00			
				372,680.61			
				2009 Addition (801.23)			
				<u>371,879</u>			

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